

SEC Number 168736  
File Number \_\_\_\_\_

**EASYCALL COMMUNICATIONS PHILIPPINES, INC.**

(Company's Full Name)

**Mary Bachrach Building 25<sup>th</sup> St. corner A. C. Delgado St., Port Area Manila**

(Company's Address)

**(632) 528-1263**

(Telephone Number)

**December 31**

(Calendar Year Ending)

**SEC Form 17-Q**

Form Type

**March 31, 2012**

Period Ended Date

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(Secondary License Type and File Number)



12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)

Yes [] No []

(b) Has been subject to such filing requirements for the past ninety (90) days.

Yes [] No []

## PART I - FINANCIAL INFORMATION

### Item 1. Financial Statements.

Please refer to the attached Financial Statements.

### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

#### SUMMARY

For the first quarter ending March 31, 2012, EasyCall Communications Philippines, Inc. (the Company) generated a consolidated net income of ₱0.81 million, compared to the ₱0.53 million net income of the same period last year. The increase in net income of 52% was primarily due to decrease in general and administrative expenses by 12% and also an increase in other income by 12% which primarily consist of interest income for the bank placement.

During the 1st quarter of 2012, EasyCall E-Services Inc., a wholly owned subsidiary, recorded ₱ 3.53 million in service revenue an increase of 6% compared to last year's level of ₱3.32 million. Also the first quarter General and Administrative (G&A) expenses were reduced from P1.09 million last year to ₱.98 million this year. Thus, the resulting Net Income before Tax increased by 225% from ₱0.12 million to ₱0.39 million for the period.

The financial performance using key financial ratios are shown as follows:

	ECPI		ESERV		EPMAX	
	YTD March 31, 2012	One Year Ended December 31, 2011	YTD March 31, 2012	One Year Ended December 31, 2011	YTD March 31, 2012	One Year Ended December 31, 2011
Current Ratio	<b>3.38</b>	3.35	<b>2.96</b>	2.35	<b>2.13</b>	1.96
Gross Margin - Amt in 000 Php	<b>379</b>	1,509	<b>1,378</b>	6,544	<b>71</b>	181
Gross Profit Rate	<b>33.83%</b>	33.68%	<b>38.99%</b>	46.32%	<b>13.42%</b>	8.38%
Percentage of Operating Expenses to Sales	<b>66.73%</b>	83.04%	<b>27.87%</b>	38.39%	<b>12.12%</b>	3.85%
Profit Ratio	<b>1.49%</b>	7.70%	<b>11.16%</b>	5.63%	<b>1.97%</b>	4.70%

The Current Ratio is calculated by dividing current assets by the current liabilities. Gross Margins are service revenues less cost of services (i.e., cost of leased line subscriptions for e-Serve; cost of services for e-Performax). Gross Profit Rate is arrived at by dividing the gross margin amount computed above by the total service revenues. Percentage of Operating Expense to Revenues is computed by dividing the total general and administrative expenses by the service revenues. The Profit ratio is the outcome of dividing the net income over total sales.

## **REVENUES**

During the first quarter of 2012, the Company's consolidated service income stood at ₱4.65 million, compared to ₱4.44 million last year, for an increase of 5%. The Company generated P1.12 million in revenues from its own operations, and P3.53 million in revenues from its subsidiary, Easycall eServices.

## **COST AND EXPENSES**

On the other hand Direct Costs (i.e., cost of leased line subscriptions) also increased by 2% from ₱2.85 million from first quarter of 2011 to ₱2.90 million for this year. General and administrative expenses were at ₱1.73 million this quarter compared to ₱1.96 million last year, for a 12% decrease.

## **EQUITY IN NET EARNINGS OF AN ASSOCIATE**

Based on the company's 3.8% interest in ePerformax International Inc., the Company recognized equity in net earnings of ₱0.40 million for the first quarter of 2012.

## **OTHER INCOME**

During first quarter of this year, the company recognized other income of ₱ 0.39 million, a 12% increase compared to last year's other Income of ₱0.35 million. This income was derived mainly from interest earned from cash placements.

## **CASH**

Total cash amounted to ₱56.31 million, as of the end of first quarter of 2012, or a decrease of 0.11% from ₱56.37 million as of December 31, 2011.

## **RECEIVABLES**

Accounts Receivables totaled ₱10.27 million, as of the end of the first quarter of 2012, compared to ₱10.92 as of December 31, 2011, for a 6% decrease.

## **PREPAID EXPENSE AND OTHER ASSETS**

Prepaid expenses were at P1.00 million as of March 31, 2012, compared to P0.57 million for 2011 or an increase of 77%. This is primarily due to increase of prepayments on subscription dues and annual maintenance this year.

## **INVESTMENTS**

Total Investments were at P28.85 million for the period ending March 2012, compared to the P28.38 million balance as of December 31, 2011. The increase was basically a result of the increase in value of company's share in ePerformax International.

## **PROPERTY AND EQUIPMENT**

The net value of property, plant and equipment increased by 2%, from ₱7.33 million as of December 31, 2011 to ₱7.51 million by the end of first quarter of 2012.

## **CURRENT LIABILITIES**

Total current liabilities declined from P21.13 million as of December 31, 2011 to P20.76 million by the end of the first quarter in 2012. This is 2% lower, primarily due to settlement of payables during the period.

## **SHARE IN CUMULATIVE TRANSLATION ADJUSTMENT**

This represents changes in Cumulative Translation Adjustments in the books of ePerformax International, where the Company has a 3.8% share in equity ownership.

***Discussions and Analysis of material event/s and uncertainties known to management that would have address the past and would have an impact on future operations of the following:***

- a. There are **NO** known trends, demands, commitments, event or uncertainties that will have an impact on the issuer's future liquidity.
- b. There are **NO** known event/s that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.
- c. There are **NO** material off-balance sheet transactions, arrangements, obligations and other relationships of the company with unconsolidated entities or other persons created during the reporting period.
- d. There are **NO** material commitments for capital expenditures that occurred during the reporting period.
- e. There are **NO** known trends, events or uncertainties that are expected to have material impact on net sales/revenues/income from continuing operations that occurred during the reporting period.
- f. There are **NO** significant elements of income or loss that did not arise from the issuer's continuing operations that occurred during the reporting period.
- g. There are **NO** seasonal aspects that had a material effect on the financial condition or results of operation.

**PART II - OTHER INFORMATION**

**None**

**SIGNATURES**


Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**ISSUER – EASYCALL COMMUNICATIONS PHILIPPINES, INC.**



**SOCORRO Z. NIRO**  
President

Date: May 14, 2012



**CARLO M. SEVERINO**  
Treasurer/Chief Information Officer

Date: May 14, 2012



**RENATO VICENTE R. MARTINEZ**  
General Manager

Date: May 14, 2012



# EASYCALL COMMUNICATIONS PHILIPPINES, INC. AND SUBSIDIARY

Consolidated Financial Statements  
As of March 31, 2012 and December 31, 2011,  
For the First Quarter Ended March 31, 2012,  
And Quarter Ended March 31, 2011

<b>EASYCALL COMMUNICATIONS PHILIPPINES, INC. AND SUBSIDIARY</b>		
<b>CONSOLIDATED BALANCE SHEETS</b>		
<i>(in Php)</i>	<b>31-Mar-12</b>	31-Dec-11
	<b>(Unaudited)</b>	<b>(Audited)</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 4)	56,308,144	56,370,355
Trade and other receivables- net (Note 5)	10,273,030	10,918,524
Prepaid expenses and other current assets	1,007,970	570,611
	<b>67,589,144</b>	<b>67,859,490</b>
Assets held for sale (Note 8)	2,081,535	2,081,535
<b>Total Current Assets</b>	<b>69,670,680</b>	<b>69,941,025</b>
<b>Noncurrent Assets</b>		
Investments in shares of stock (Note 6)	28,852,719	28,378,430
Investments - others	450,000	450,000
Property and equipment - net (Note 7)	7,506,061	7,332,389
Retirement benefit assets	184,946	184,946
Input value-added taxes (VAT)	2,013,892	1,873,490
<b>Total Noncurrent Assets</b>	<b>39,007,618</b>	<b>38,219,255</b>
<b>TOTAL ASSETS</b>	<b>108,678,297</b>	<b>108,160,280</b>
<b>LIABILITIES AND CAPITAL DEFICIENCY</b>		
<b>Current Liabilities</b>		
Trade and other payables (Note 9)	1,448,477	1,815,803
Payable to related parties (Note 11)	-	-
Advances from Stockholders (Notes 1 and 10)	19,310,284	19,310,284
Income Tax Payable	-	-
<b>Total Current Liabilities</b>	<b>20,758,761</b>	<b>21,126,087</b>
<b>Noncurrent Liabilities</b>		
Retirement Benefit Obligation	-	-
Deferred Tax Liability	55,484	55,484.00
Advances from Stockholders	-	-
<b>Total Noncurrent Liabilities</b>	<b>55,484</b>	<b>55,484</b>
<b>Equity</b>		
Capital stock (Note 1 and 11)	150,000,000	150,000,000
Deposits for future subscription (Note 1)		-
Share in cumulative translation adjustments (CTA) of an associates (Note 6)	(496,403)	(574,834)
Deficit (Note 1)	(61,639,545)	(62,446,457)
<b>Total Equity</b>	<b>87,864,052</b>	<b>86,978,709</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (CAPITAL DEFICIENCY)</b>	<b>108,678,297</b>	<b>108,160,280</b>
<i>See accompanying Notes to Consolidated Financial Statements</i>		

<b>EASYCALL COMMUNICATIONS PHILIPPINES, INC.</b>		
<b>AND SUBSIDIARY</b>		
<b>CONSOLIDATED STATEMENTS OF INCOME</b>		
<i>(Unaudited)- in Php</i>		
	<b>Quarter Ended March 31</b>	
	<b>2012</b>	<b>2011</b>
<b>SERVICE INCOME</b>	<b>4,653,927</b>	<b>4,437,804</b>
<b>COST OF SERVICES</b>	<b>2,897,116</b>	<b>2,847,952</b>
<b>GROSS INCOME</b>	<b>1,756,810</b>	<b>1,589,851</b>
<b>GENERAL AND ADMINISTRATIVE (Note 14)</b>	<b>(1,732,368)</b>	<b>(1,961,511)</b>
<b>GAIN ON SALE OF INVESTMENTS</b>	<b>-</b>	<b>-</b>
<b>EQUITY IN NET EARNINGS OF AN ASSOCIATE (Note 7)</b>	<b>395,858</b>	<b>555,332</b>
<b>DIVIDEND INCOME</b>		
<b>OTHER INCOME (Note 15)</b>	<b>386,612</b>	<b>345,903</b>
<b>INCOME(LOSS) FROM CONTINUING OPERATIONS</b>	<b>806,912</b>	<b>529,575</b>
<b>INCOME(LOSS) BEFORE INCOME TAX</b>	<b>806,912</b>	<b>529,575</b>

*See accompanying Notes to Consolidated Financial Statements*

<b>EASYCALL COMMUNICATIONS PHILIPPINES INC. AND SUBSIDIARY</b>					
<b>CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (CAPITAL DEFICIENCY)</b>					
<i>(Unaudited)- in Php</i>					
	<b>Capital Stock (Note 11)</b>	<b>Deposits for Future Stock Subscriptions (Note 1)</b>	<b>Share in Cumulative Translation Adjustment (Note 6)</b>	<b>Deficit (Note 1)</b>	<b>Total</b>
<b>Balances at January 1, 2012</b>	<b>150,000,000</b>	<b>-</b>	<b>(574,834)</b>	<b>(62,446,457)</b>	<b>86,978,709</b>
<b>Share in CTA of an associate (Note 6)</b>	<b>-</b>		<b>78,431</b>		<b>78,431</b>
<b>Net Income for the period</b>	<b>-</b>	<b>-</b>		<b>806,912</b>	<b>806,912</b>
<b>Total Comprehensive income for the year</b>			<b>78,431</b>	<b>806,912</b>	<b>885,343</b>
<b>Balances at March 31, 2012</b>	<b>150,000,000</b>	<b>-</b>	<b>(496,403)</b>	<b>(61,639,545)</b>	<b>87,864,052</b>
	<b>Capital Stock (Note 12)</b>	<b>Deposits for Future Stock Subscriptions (Note 1)</b>	<b>Share in Cumulative Translation Adjustment (Note 7)</b>	<b>Deficit</b>	<b>Total</b>
<b>Balances at January 1, 2011</b>	<b>150,000,000</b>	<b>-</b>	<b>(574,834)</b>	<b>(66,289,657)</b>	<b>83,135,509</b>
<b>Share in CTA of an associate (Note 6)</b>	<b>-</b>		<b>78,431</b>		<b>78,431</b>
<b>Net Income for the period</b>	<b>-</b>	<b>-</b>		<b>806,912</b>	<b>806,912</b>
<b>Total Comprehensive income for the year</b>			<b>78,431</b>	<b>806,912</b>	<b>885,343</b>
<b>Balances at March 31, 2011</b>	<b>150,000,000</b>	<b>-</b>	<b>(496,403)</b>	<b>(65,482,745)</b>	<b>84,020,852</b>

*See accompanying Notes to Consolidated Financial Statements*

<b>EASYCALL COMMUNICATIONS AND SUBSIDIARY</b>		
<b>CONSOLIDATED STATEMENTS OF CASH FLOWS</b>		
<i>(Unaudited)</i>		
	<b>Quarter Ended March 31</b>	
	<b>2012</b>	<b>2011</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	<b>806,912</b>	529,575
Adjustments for:		
Common Stock		
Depreciation (Note 7)	<b>745,524</b>	748,036
Dividend Income		
Equity in net earnings (Note 6)	<b>(395,858)</b>	(555,332)
Capital Gains Tax and Documentary stamps tax expense		
Gain on Sale of Investment in ePerformax		
Interest income (Note 14)	<b>(386,612)</b>	(338,230)
Operating income (loss) before working capital changes	<b>769,966</b>	<b>384,049</b>
Decrease (increase) in:		
Receivables	<b>645,494</b>	(1,103,167)
Prepaid expenses and other current assets	<b>(437,359)</b>	(790,826)
Increase (decrease)		
Payable to Related Parties		
Accounts payable and accrued expenses	<b>(367,325)</b>	(2,193,622)
Retirement benefit asset	<b>(0)</b>	33,051
Net cash used in operations	<b>610,776</b>	<b>(3,670,515)</b>
Interest received	<b>386,612</b>	249,058
Capital Gains Tax and Documentary stamps tax payments		
Income taxes paid	-	-
<b>Net cash used in operating activities</b>	<b>997,388</b>	<b>(3,421,458)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of:		
Investment in shares of stock		
Dividends received	-	-
Changes in accounts with related parties	-	-
Increase in input VAT	<b>(140,402)</b>	(34,170)
Acquisition of investments - others		(450,000)
Additions to property and equipment (Note 7)	<b>(919,196)</b>	(42,000)
<b>Net cash from investing activities</b>	<b>(1,059,598)</b>	<b>(526,170)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase in advances from a stockholder	-	-
Increase in Capital Stock	-	-
<b>Net cash from financing activities</b>	<b>-</b>	<b>-</b>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>(62,211)</b>	(3,947,628)
<b>CASH AT BEGINNING OF PERIOD (YEAR)</b>	<b>56,370,355</b>	<b>55,819,941</b>
<b>CASH AT END OF PERIOD</b>	<b>56,308,144</b>	<b>51,872,313</b>
<i>See accompanying Notes to Consolidated Financial Statements</i>		

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**EASYCALL COMMUNICATIONS PHILIPPINES, INC. AND SUBSIDIARY**

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**1. Corporate Information**

Easycall Communications Philippines, Inc. (the Company) was registered with the Philippine Securities and Exchange Commission (SEC) on September 25, 1989 primarily to operate a paging business in the Philippines. The Company was listed in the Philippine Stock Exchange (PSE) in May 1992.

Since the closure of the paging business in 2002 as a result of the development of short messaging service of cellular phone companies, the Company engaged into the contact center outsourcing business and information technology related business. Starting 2009, the operations of these businesses are carried out by the Company, its wholly-owned subsidiary, Easycall e-Services, Inc. (e-Serve), a company engaged in information technology services and its associate ePerformax International Inc. (ePI), a company engaged in contact center outsourcing business.

Starting November 2005, the management and administrative functions of the Company are being handled by Transnational e-Business Solutions, Inc. (TESI), a related party.

The Company is a subsidiary of Global e-Business Solutions, Inc. (GeBSI), a company organized in the Philippines. The ultimate parent of the Company is Transnational Diversified Corporation (TDC), a company organized in the Philippines. In 2004, GeBSI carried out its financial commitment to support the operations of the Company by subscribing ₱60,000,000 of the Company's capital stock.

On November 26, 2004, the Board of Directors (BOD) approved the following:

- a. Merger of TESI with the Company. TESI is an information technology company, which is a wholly-owned subsidiary of TDC.
- b. Private placement by GeBSI for 100 million shares or ₱100,000,000 to be taken from the Company's unsubscribed capital stock in order to address and enhance the current capital deficiency of the Company and e-Serve (collectively referred to as "the Group").

The BOD further approved that this private placement shall be paid in the form of:

- i. The conversion of outstanding advances and liabilities of the Company to GeBSI and its related parties;
- ii. The agreed valuation of TESI to be approved by the shareholders; and
- iii. Additional cash infusion.

This private placement shall be subject to the necessary clearance and authorization of governing regulatory agencies. Consequently, in 2005, GeBSI converted its advances amounting to ₱22,310,284 into deposits for future stock subscriptions.

On July 19, 2006, the stockholders approved the indefinite suspension of the planned merger to seek further guidance in the documentation and compliance requirements of the plan since the Company is in the course of completing the valuation processes and reviewing the business model of the proposed merger.

In October 2008, GeBSI reverted back its deposits for future stock subscriptions to advances from a stockholder (see Note 10). As of April 5, 2011, there is no new development on the planned merger.

On April 14, 2010, the PSE approved the application of the Company to list additional 46,570,025 common shares with a par value of ₱1.00 per share to cover the private placement by GeBSI at a subscription price at par (see Note 11).

As of December 31, 2011, the Company has complied with the minimum public float requirement of the local regulators following the divestment of a portion of the shares owned by GeBSI. GeBSI sold 8 million common shares to the public through its designated stock broker, APEX (Philippines) Equities Corporation, raising the Company's public float to 10.06 %.

The registered office address of the Company is 2nd Floor, Mary Bachrach Building, 25th corner A.C. Delgado Streets, Port Area, Manila.

The consolidated financial statements of the Group as of December 31, 2011 and 2010 and for each of the three years in the period ended December 31, 2011 were authorized for issue by the BOD on April 4, 2012.

### Segment Information

The Group has information technology services and contact center outsourcing business segments in 2011, 2010 and 2009. The financial position and results of the information technology services and contact center outsourcing business segments are reflected in the consolidated financial statements.

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## **2. Summary of Significant Accounting Policies**

### Basis of Preparation

The consolidated financial statements have been prepared under the historical cost basis. The consolidated financial statements are presented in Philippine peso (₱), which is the Company's functional currency. All amounts are rounded to the nearest ₱ except when otherwise stated.

### Statement of Compliance

The accompanying consolidated financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

### Basis of Consolidation

The consolidated financial statements include the accounts of the Company and e-Serve, a 100% owned subsidiary.

A subsidiary is consolidated from the date of acquisition, being the date on which control is transferred to the Group and continue to be consolidated until the date that such control

ceases. When there is a loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting year during which the Company has control.

The financial statements of a subsidiary are prepared for the same reporting year as the parent company. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. All intercompany balances and transactions, including intercompany profits and losses are eliminated.

#### Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following revised and amended PFRS and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC) and improvements to PFRS, which the Group has adopted starting January 1, 2011. Adoption of these changes did not have any significant impact on the consolidated financial statements:

- Philippine Accounting Standard (PAS) 24 (Amendment), *Related Party Disclosures*
- PAS 32 (Amendment), *Financial Instruments: Presentation - Classification of Rights Issues*
- Philippine Interpretation IFRIC 14 (Amendment), *Prepayments of a Minimum Funding Requirement*
- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*

#### *Improvements to PFRS*

- PFRS 3, *Business Combination*
- PFRS 7, *Financial Instruments: Disclosures*
- PAS 1, *Presentation of Financial Statements*
- PAS 27, *Consolidated and Separate Financial Statements*
- PAS 34, *Interim Financial Statements*
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*

#### Revenue Recognition

Revenue is recognized to the extent it is probable that the economic benefits will flow to the Group and the revenue can be measured reliably. The following specific recognition criteria must be met before revenue is recognized:

##### *Service Income*

Service income is recognized when the related services have been rendered.

##### *Interest Income*

Interest income from bank deposits is recognized as revenue as the interest accrues taking into account the effective yield of the asset.

#### Costs and Expenses

Costs and expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Costs and expenses are generally recognized when incurred.

##### *Costs of Services*

Costs of services, which comprise mainly of costs of providing information technology services, are recognized when incurred.



### *General and Administrative Expenses*

General and administrative expenses are recognized when incurred.

### Cash and Cash Equivalents

Cash includes cash with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from date of placement and that are subject to an insignificant risk of changes in value.

### Financial Instruments

Financial instruments are recognized in the consolidated financial statements when the Group becomes a party to the contractual provisions of the instrument. The Group determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each balance sheet date.

All regular way purchases and sales of financial asset are recognized on the settlement date. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial instruments are recognized initially at fair value of the consideration given (in the case of an asset) or received (in the case of a liability). Except for financial instruments at fair value through profit or loss (FVPL), the initial measurement of financial instruments includes transaction costs. Financial assets under PAS 39 are classified as either financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments and AFS financial assets. The Group's financial assets are of the nature of loans and receivables. As of December 31, 2011 and 2010, the Group has no outstanding financial assets at FVPL, HTM investments and AFS financial assets. Also, under PAS 39, financial liabilities are classified as financial liabilities at FVPL or other financial liabilities. The Group's financial liabilities are of the nature of other financial liabilities. The Group has no outstanding financial liabilities at FVPL as of December 31, 2011 and 2010.

### *Loans and Receivables*

Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets held for trading, designated as AFS financial assets or designated at FVPL.

This accounting policy applies primarily to the Group's "Cash and cash equivalents" and "Trade and other receivables". Loans and receivables are classified as current assets when these are expected to be realized within twelve months after the balance sheet date or within the normal operating cycle, whichever is longer. Otherwise, these are classified as noncurrent assets.

Loans and receivables are recognized initially at fair value, which normally pertains to the billable amount. After initial measurement, loans and receivables are measured at amortized cost using the effective interest rate method, less allowance for impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization, if any, is included in the consolidated statement of comprehensive income. The losses arising from impairment of loans and receivables are recognized in the consolidated statement of comprehensive income. The level of allowance for impairment losses is evaluated by management on the basis of factors that affect the collectibility of accounts. Loans and receivables are presented as current assets when it is expected to be realized within twelve months after the balance sheet date or within normal operating cycle, whichever is longer.

### *Other Financial Liabilities*

Issued financial liabilities or their components, which are not designated at FVPL are classified as other financial liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

After initial measurement, other financial liabilities are measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Any effects of restatement of foreign currency-denominated liabilities are recognized in the consolidated statement of comprehensive income.

This accounting policy applies primarily to the Group's "Trade and other payables", "Advances from a stockholder" and other obligations that meet the above definition (other than liabilities covered by other accounting standards such as retirement benefit obligation and income tax payable).

Other financial liabilities are classified as current liabilities when these are expected to be settled within twelve months from the balance sheet date or the Group has an unconditional right to defer settlement for at least twelve months from the balance sheet date or the Group does not have an unconditional right to defer settlement for at least twelve months from reporting date. Otherwise, these are classified as noncurrent liabilities.

### Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

### Derecognition of Financial Instruments

#### *Financial Assets*

A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized when:

1. the rights to receive cash flows from the asset have expired;
2. the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
3. the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risks and rewards of the asset but has transferred the control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes

the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount.

### *Financial Liabilities*

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of comprehensive income.

### Investment in Shares of Stock

Investment in shares of stock pertains to the Group's investment in ePI, which represents 3.8% ownership. Investment in shares of stock is accounted for under the equity method of accounting.

Under the equity method, the investment is carried in the consolidated balance sheet at cost adjusted for the equity in net income or losses and changes in the investee's equity account since the date of acquisition. Dividends received are treated as a reduction in the carrying value of the investment. Unrealized intercompany profits or losses are eliminated to the extent of the Group's proportionate share thereof.

Where there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Profits or losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The financial statements of the associate are prepared for the same reporting period as the consolidated financial statements of the Group. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

ePI is an associate of the Group. An associate is an entity in which the Group has significant influence, but not control, over the financial and operating policies of the entity. The Group exercises its significant influence in ePI through its representation on the BOD and participation in the policy-making processes.

### Assets Held for Sale

Assets are classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. Assets held for sale is measured at the lower of its carrying amount and fair value less costs to sell. Any liabilities associated with these assets are presented separately in the consolidated balance sheet.

### Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and any allowance for impairment in value.

The initial cost of property and equipment comprises of its purchase price, including import duties and nonrefundable purchase taxes and any directly attributable costs of bringing the property and equipment to its working condition and location for its intended use. Such costs include the cost of replacing part of such property and equipment when that cost is incurred if

the recognition criteria are met. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance, are normally charged to expense in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Each part of an item of property and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Depreciation is computed on a straight-line method over the estimated useful lives of the assets of three (3) to five (5) years.

The depreciation method and estimated useful lives are reviewed periodically to ensure that the method and periods of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment.

When property and equipment are retired or otherwise disposed of, their cost, accumulated depreciation and any allowance for impairment in value are eliminated from the accounts, and any gain or loss resulting from their disposal is included in the consolidated statement of comprehensive income.

Fully depreciated assets are retained as property and equipment until these are no longer in use.

#### Input VAT

Input VAT represents tax imposed on the Group by their suppliers and contractors for the acquisition of goods and services required under Philippine taxation laws and regulations.

Input VAT is stated at its estimated net realizable value.

#### Impairment of Assets

##### *Financial Assets Carried at Amortized Cost*

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. If there is objective evidence that an impairment loss on financial assets carried at amortized cost (e.g., trade and other receivables) has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Objective evidences of impairment may include indications that the debtors or a group of debtor is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. Time value is generally not considered when the effect of discounting is not material. The carrying amount of the asset shall be reduced either directly or through use of an allowance account. In case the receivable has proven to have no realistic prospect of future recovery, any allowance provided for such receivable is written off against the carrying value of the impaired receivable. The amount of loss shall be recognized in the consolidated statement of comprehensive income.

The Group assesses whether objective evidences of impairment exists individually for financial assets that are individually significant or collectively for financial assets that are not individually significant. Those objective evidences are relevant to the estimation of future cash flows of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of comprehensive income to the extent that the carrying value of the asset at the reversal date does not exceed its amortized cost that would have been determined had no impairment loss been recognized in prior years.

With respect to trade and other receivables, the Group maintains an allowance for impairment losses at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management on the basis of factors that affect the collectibility of the accounts. A review of the age and status of receivables, designed to identify accounts to be provided with allowance, is performed regularly. Impaired receivables are derecognized when they are assessed as uncollectible.

#### *Investment in Shares of Stock*

The Group performs an impairment review on its investment in shares of stock whenever an impairment indicator exists. After application of the equity method, the Group determines whether it is necessary to recognize an additional impairment loss of the Group's investment in its associate. The Group determines at each balance sheet date whether there is any objective evidence that the investment in associate is impaired. If this is the case, the Group calculates the amount of impairment as being the difference between the fair value of the associate and the acquisition cost and recognizes the amount in the consolidated statement of comprehensive income.

#### *Property and Equipment and Input VAT*

The carrying values of property and equipment and input VAT are reviewed for impairment whenever events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets or cash-generating units are written down to their estimated recoverable amounts. The estimated recoverable amount is the greater of an asset's fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the estimated recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment loss, if any, is recognized in the consolidated statement of comprehensive income.

Recovery of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or have decreased.

The recovery of impairment losses is recorded in the consolidated statement of comprehensive income. However, the increased carrying amount of an asset due to a recovery of an impairment loss is recognized to the extent it does not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognized for that asset in prior years.

### Provisions

Provisions, if any, are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are made by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of comprehensive income, net of any reimbursement.

### Retirement Benefits

The Group has a defined retirement benefit plan which requires contributions to be made to separately administered fund. The cost of providing benefits under the defined retirement benefit plan is determined using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for the plan at the end of the previous reporting year exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

The past service cost is recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a pension plan, past service cost is recognized immediately.

The defined retirement benefit asset is the aggregate of the present value of the defined benefit obligation and actuarial gains and losses not recognized reduced by past service cost not yet recognized and the fair value of plan assets out of which the obligations are to be settled directly. If such aggregate is negative, the asset is measured at the lower of such aggregate or the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

The net pension asset in respect of the defined benefit pension plan is the lower of: (a) the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan assets together with adjustments for unrecognized actuarial gains or losses and past service costs that shall be recognized in later periods or (b) the total of any cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. If there is no

change or increase in the present value of the economic benefits, the past service cost of the current period shall be recognized immediately.

#### Capital Stock

The Company has issued capital stock that is classified as equity. Incremental costs directly attributable to the issue of new capital stock are shown in equity as a deduction, net of tax, from the proceeds.

#### Deficit

Deficit represents accumulated profits and losses incurred by the Company. Deficit may also include effect of changes in accounting policy as may be required by transitional provisions of new and amended standards.

#### Foreign Currency Translation

The functional currency of the entities of the Group is the Philippine peso, except for a subsidiary of the associate, which the functional currency is the United States Dollar. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

The assets and liabilities of a subsidiary of the associate whose functional currency is other than the Philippine peso, are translated into Philippine peso at the rate of exchange ruling at the balance sheet date, and its income and expenses are translated to Philippine peso at average exchange rates. The exchange differences arising on the translation are taken directly to "Share in CTA of an associate" account, a separate component of equity.

#### Income Taxes

##### *Current Income Tax*

Current income tax liabilities for the current and prior year periods are measured at the amount expected to be recovered from or paid to the taxation authority. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted as at the balance sheet date.

##### *Deferred Income Tax*

Deferred income tax is provided, using the balance sheet liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences and carryforward of unused tax credits from excess minimum corporate income tax (MCIT) and unused net operating loss carryover (NOLCO) to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carryforward of unused tax credits from excess MCIT and unused NOLCO can be utilized in the future.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized in the future. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred income tax assets to be recognized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax assets and deferred income tax liabilities are offset, if and only if, a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities, which intend to either settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred income tax assets or liabilities are expected to be settled or recovered. Subsidiaries operating in the Philippines file income tax returns on an individual basis. Thus, the deferred income tax assets and liabilities are offset on a per entity basis.

#### Earnings Per Share

Earnings per share is determined by dividing net earnings by the weighted average number of shares issued during the year after retroactive adjustment for any stock dividends declared and stock split. Diluted earnings per share amounts are calculated by dividing the net earnings attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding, adjusted for any stock dividends declared during the year plus weighted average number of ordinary shares that would be issued on the conversion of all the dilutive ordinary shares into ordinary shares.

#### Segment Reporting

The Group's operating businesses are recognized and managed according to the nature of the services offered, with each segment representing a strategic business unit that serves different markets.

Segment assets include operating assets used by a segment and consist principally of operating cash, trade and other receivables, and property and equipment, net of allowances and provisions.

Segment liabilities include all operating liabilities and consist principally of trade and other payables and notes payable. Segment assets and liabilities do not include deferred income taxes.

#### Operating Leases

Operating leases represent those leases under which substantially all risks and rewards of ownership of the leased assets remain with the lessor. Lease payments under an operating lease are charged to expense on a straight-line basis over the terms of the lease.

#### Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed when an inflow of economic benefits is probable.

#### Events After the Balance Sheet Date

Post year-end events that provide additional information about the Group's position at the balance sheet date (adjusting events) are reflected in the consolidated financial statements.



Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

New Accounting Standards, Interpretations and Amendments to Existing Standards Effective Subsequent to December 31, 2011

\_\_\_\_ Standards and interpretations issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS and Philippine Interpretation from IFRIC to have significant impact on the consolidated financial statements. The Group will adopt these standards and interpretations when these become effective.

*Effective in 2012*

*Amendment to PAS 12, Income Taxes - Deferred Tax: Recovery of Underlying Assets*

The amendment provides a practical solution to the problem of assessing whether recovery of an asset will be through use or sale. It introduces a presumption that recovery of the carrying amount of an asset will, normally, be through sale.

*Amendment to PFRS 7, Financial Instruments: Disclosures - Transfers of Financial Assets*

The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

*Effective in 2013*

*Amendment to PAS 1, Financial Statement Presentation - Presentation of Items of Other Comprehensive Income*

The amendment will allow the management to present separately those items that could be reclassified (or "recycled") to profit or loss at a future point in time from those items that will never be reclassified.

*Amendment to PAS 19, Employee Benefits*

Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording. The Group is currently assessing the impact of the amendment to PAS 19.

*Amendment to PAS 27, Separate Financial Statements*

As a consequence of the new PFRS 10, *Consolidated Financial Statements* and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements.

*Amendment to PAS 28, Investments in Associates and Joint Ventures*

As a consequence of the new PFRS 11, *Joint Arrangements* and PFRS 12, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates.

*PFRS 7, Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*

The amendments require entities to disclose information that will enable users to evaluate the effect or potential effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognized financial instruments that are set-off in accordance with PAS 32 and recognized financial instruments that are subject to an enforceable master

netting arrangement or similar agreement, irrespective of whether they are set-off in accordance with

PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

- a) The gross amounts of those recognized financial assets and recognized financial liabilities;
- b) The amounts that are set-off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
- c) The net amounts presented in the statement of financial position;
- d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
  - i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
  - ii. Amounts related to financial collateral (including cash collateral); and
- e) The net amount after deducting the amounts in (c) from the amounts in (d) above.

#### *PFRS 10, Consolidated Financial Statements*

PFRS 10 replaces the portion of PAS 27, *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12, *Consolidation - Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27.

#### *PFRS 11, Joint Arrangements*

PFRS 11 replaces PAS 31, *Interests in Joint Ventures* and SIC-13, *Jointly-controlled Entities - Non-monetary Contributions by Venturers*. PFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.

#### *PFRS 12, Disclosure of Involvement with Other Entities*

PFRS 12 includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31 and PAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required.

#### *PFRS 13, Fair Value Measurement*

PFRS 13 establishes a single source of guidance under PFRS for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted.

#### *Philippine Interpretation IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine*

This interpretation applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine ("production stripping costs") and provides guidance on the recognition of production stripping costs as an asset and measurement of the stripping activity asset.

*Effective in 2014*

*PAS 32, Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*

These amendments to PAS 32 clarify the meaning of “currently has a legally enforceable right to set-off” and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous.

*Effective in 2015*

*PFRS 9, Financial Instruments: Classification and Measurement*

PFRS 9 as issued reflects the first phase of the International Accounting Standards Board’s (IASB) work on the replacement of PAS 39 and applies to classification and measurement of financial assets as defined in PAS 39. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group’s financial assets. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

*Deferred Effectivity*

*Philippine Interpretation IFRIC 15, Agreements for the Construction of Real Estate*

This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The Philippine SEC and the Financial Reporting Standards Council have deferred the effectivity of this interpretation until the final Revenue standard is issued by IASB and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

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### **3. Significant Accounting Judgments, Estimates and Assumptions**

The consolidated financial statements prepared in accordance with PFRS require management to make judgments, estimates and assumptions that affect amounts reported in the consolidated financial statements and related notes. The judgments and estimates used in the consolidated financial statements are based upon management’s evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Actual results could differ from such estimates. Judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments

*Determining Functional Currency*

The functional currency of the Company has been determined to be the Philippine peso. The Philippine peso is the currency of the primary economic environment in which the Company operates.

#### *Operating Lease - the Group as a Lessee*

The Group has entered into an operating lease agreement as a lessee and determined that the lessor retains all significant risks and reward of ownership of the related property (see Note 17).

#### *Determining Whether Significant Influence Exists for Purposes of Applying PAS 28*

The Group evaluates various factors in determining whether significant influence exists. Under PAS 28, there is a presumption that if ownership is below 20%, significant influence does not exist unless otherwise supported. Among the factors being considered by management in the assessment are, degree of representation in the BOD of the investee, corporate governance arrangements, and power to veto significant operating and financial decisions. Under the exercise of this judgment, the Company classified its 3.8% investment in ePI as an investment in associate. The carrying value of this investment amounted to ₱28,852,719 and ₱28,378,430 as of March 31, 2012 and 2011, respectively (see Note 6).

#### Estimates and Assumptions

##### *Estimating Impairment of Trade and Other Receivables*

Management reviews the age and status of trade and other receivables and identifies accounts that are to be provided with allowances on a continuous basis. The Group maintains allowance for impairment losses at a level considered adequate to provide for potential uncollectible receivables.

The Group evaluates specific accounts where the Group has information that certain customers or third parties are unable to meet their financial obligations. Factors, such as the Group's length of relationship with the customers or other parties and the customers' or other parties' current credit status, are considered in determining the amount of impairment loss that will be recorded. The allowance is re-evaluated and adjusted as additional information is received.

Allowance for impairment losses on trade and other receivables amounted ₱3,520,453 as of March 31, 2012 and 2011. Management believes that the allowance is sufficient to cover the trade and other receivable balances which are specifically identified to be doubtful of collection. The Group also determines receivables to be written-off based on assessments and results of earnest efforts exerted by management to collect such receivables. Trade and other receivables, net of allowance for impairment losses, amounted to ₱ 10,273,031 and ₱10,918,524 as of March 31, 2012 and 2011, respectively (see Note 5).

##### *Estimating Useful Lives of Property and Equipment*

The Group estimates the useful lives of property and equipment based on the period over which these assets are expected to be available for use. The estimated useful lives are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of these assets.

In addition, estimation of the useful lives is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. The net book values of property and equipment amounted to ₱7,506,061 and ₱7,332,389 as of March 31, 2012 and 2011, respectively (see Note 7).

##### *Estimating Realizability of Deferred Income Tax Assets*

The Group reviews the carrying amounts of deferred income tax assets at each balance sheet date and reduced the amounts to the extent that it is no longer probable that sufficient taxable

income will be available to allow all or part of the deferred income tax assets to be utilized in the future. However, there is no assurance that the Group will generate sufficient taxable income to allow all or part of its deferred income tax assets to be utilized in the future. The Group has deductible temporary differences, excess MCIT and unused NOLCO totaling ₱5,655,937 and ₱4,079,685 as of March 31, 2012 and 2011, respectively, for which no deferred income tax assets were recognized (see Note 18).

#### *Estimating Impairment of Property and Equipment and Input VAT*

The Group assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Group considers important which could trigger an impairment review include the following:

- Significant underperformance relative to expected historical or projected operating results;
- Significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- Significant negative industry or economic trends.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of assets in an arms' length transaction while value in use is the present value of estimated future cash flows expected to rise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs. For impairment loss on specific assets, the recoverable amount represents the fair value less costs to sell.

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions that can materially affect the consolidated financial statements. No impairment loss was recognized in 2011, 2010 and 2009. The aggregate carrying amounts of property and equipment and input VAT amounted to ₱9,519,953 and ₱9,205,879 as of March 31, 2012 and 2011, respectively.

#### *Estimating Impairments of Investment in Shares of Stock*

The Group performs an impairment review on its investment whenever an impairment indicator exists. After applying the equity method, the Group determines whenever it is necessary to recognize an impairment loss on the Group's investment in shares of stock. This requires an estimation of the value in use of the investment. Estimating the value in use requires the Group to make an estimate of the expected future cash flows of the investment and to make use of a suitable discount rate to calculate the present value of those future cash flows.

Management has determined that there are no events or circumstances that may indicate that the carrying amount of the investment may not be recoverable as of December 31, 2011, 2010 and 2009; thus, no impairment loss were recognized for the years then ended. As of March 31, 2012 and 2011, the carrying amounts of the investment in shares of stock amounted to ₱28,852,719 and ₱28,378,430, respectively (see Note 6).

#### *Estimating Fair Value Less Costs to Sell*

The Group estimates the fair value of assets held for sale based on the available market price of similar assets less estimated costs to sell. The carrying amount of assets held for sale amounted to ₱

2,081,535 as of March 31, 2012 and 2011. The fair value of the assets held for sale amounted to ₱ 3,012,000 and ₱3,027,000 as of March 31, 2012 and 2011, respectively (see Note 8).

*Estimating Retirement Benefits*

The determination of the Group’s obligation and cost for retirement is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. These assumptions are described in Note 16 to the consolidated financial statements. Retirement benefit expense (income) amounted to ₱33,051, ₱4,307 and (₱34,100) in 2011, 2010 and 2009, respectively. Retirement benefit asset amounted to ₱184,946 and ₱217,997 as of March 31, 2012 and 2011, respectively (see Note 16).

*Estimating Contingencies*

The Group evaluates legal and administrative proceedings to which it is involved based on analysis of potential results. Management and its legal counsels do not believe that any current proceedings will have material adverse effects on its financial position and results of operations. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of strategies relating to these proceedings.

<b>4. Cash and Cash Equivalents</b>		<b>31-Mar-12</b>	<b>31-Dec-11</b>
		<b>(Unaudited)</b>	<b>(Audited)</b>
	Cash in banks	<b>7,086,027</b>	7,644,872
	Short-term deposits	<b>49,222,117</b>	48,725,483
		<b>56,308,144</b>	56,370,355

Cash with banks earn interest at the respective bank deposit rates. Short-term placements are made for varying periods usually up to three months depending on the immediate cash requirements of the Group and earn interest at the respective short-term placements rates.

<b>5. Receivables</b>			<b>31-Mar-12</b>	31-Dec-11
			<b>(Unaudited)</b>	<b>(Audited)</b>
	Trade Receivables			
		Unimpaired	<b>1,480,468</b>	1,505,219
		Impaired	<b>784,796</b>	784,796
	Advances to officers and employees/others			
		Unimpaired	<b>38,591</b>	57,400
		Impaired	<b>1,018,363</b>	1,018,363
	Others			
		Unimpaired	<b>8,753,972</b>	9,355,905
		Impaired	<b>1,717,294</b>	1,717,294
			<b>13,793,484</b>	14,438,977
	Less allowance for impairment losses		<b>3,520,453</b>	3,520,453
			<b>10,273,031</b>	10,918,524

Trade receivables are noninterest-bearing and generally have a 30-day term.

The allowance for impairment losses is attributable to the individual impairment of certain trade, advances to officers and employees and other receivables. The Group's management believes that unimpaired receivables are collectible and in good standing.

Total gross amounts of individually impaired receivables as of March 31, 2012 and 2011 before deducting impairment allowance amounted to ₱3,520,453. These receivables were fully provided with allowance for impairment losses as of March 31, 2012 and 2011.

As of March 31, the aging analysis of unimpaired trade and other receivables is as follows:

	<b>Neither Past Due Nor Impaired</b>	<b>Past Due But Not Impaired</b>				<b>Total</b>
		<b>Less than 30 days</b>	<b>30 to 60 days</b>	<b>60 to 90 days</b>	<b>More than 90 days</b>	
31-Mar-12	<b>666,715</b>	<b>465,329</b>	<b>1,135,343</b>	-	<b>8,005,645</b>	<b>10,273,031</b>
31-Dec-11	1,685,794	1,203,775	23,311		8,005,644	10,918,524

## 6 Investment in Shares of Stock

The movements of the investment in ePI are as follows:

6. Investment in Shares of stock			
		31-Mar-12	31-Dec-11
		(Unaudited)	(Audited)
<b>Acquisition costs:</b>			
	Balances at beginning of period	21,948,203	21,948,203
	Additions		
	Disposals		
	Balances at end of period	21,948,203	21,948,203
<b>Accumulated equity in net earnings:</b>			
	Balances at beginning of period	7,005,061	4,302,926
	Equity in net earnings for the period	395,858	3,845,135
	Dividend Received		(1,143,000)
	Disposals		
	Balances at end of period	7,400,919	7,005,061
<b>Share in CTA of associate:</b>			
	Balances at beginning of period	(574,834)	1,336,069
	Additions/ (Reductions)	78,431	(1,910,903)
	Disposals		
	Balances at end of period	(496,403)	(574,834)
	<b>Investment in associate at equity</b>	28,852,719	28,378,430

The Company's share in net earnings in ePI amounted to ₱2,442,085 for the year ended December 31, 2009. Dividends received by the Company from ePI amounted to ₱2,052,540 in 2009.

The summarized financial information of ePI as of December 31, 2011, 2010 and 2009, and for each of the three years in the period ended December 31, 2011 are as follows (in thousands):

	2011	2010	2009
Total assets	₱1,073,726	₱1,039,328	₱1,138,513
Total liabilities	326,158	312,728	389,949
Net income	101,317	49,000	64,265

The undistributed earnings of ePI included in the consolidated retained earnings amounted to ₱7,005,061 and ₱4,302,926 as of December 31, 2011 and 2010, respectively, which is not currently available for dividend distribution unless declared by such investee.



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**7 Property and Equipment**


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<b>7. Property and Equipment</b>			
<b>31-Mar-12</b>			
	<b>Furniture, Fixtures and Equipment</b>	<b>Internet Equipment</b>	<b>Total (Unaudited)</b>
<b>Cost</b>			
<b>Beginning Balance</b>	<b>236,135</b>	<b>15,285,949</b>	<b>15,522,084</b>
<b>Additions</b>	<b>-</b>	<b>919,196</b>	<b>919,196</b>
<b>Disposals</b>	<b>-</b>		<b>-</b>
<b>Ending Balance</b>	<b>236,135</b>	<b>16,205,145</b>	<b>16,441,280</b>
<b>Accumulated depreciation and amortization</b>			
<b>Beginning Balance</b>	<b>236,135</b>	<b>7,953,560</b>	<b>8,189,695</b>
<b>Depreciation</b>		<b>745,524</b>	<b>745,524</b>
<b>Disposals</b>			<b>-</b>
<b>Ending Balance</b>	<b>236,135</b>	<b>8,699,084</b>	<b>8,935,219</b>
<b>Net book values</b>	<b>-</b>	<b>7,506,061</b>	<b>7,506,061</b>
<b>2011</b>			
	<b>Furniture, Fixtures and Equipment</b>	<b>Internet Equipment</b>	<b>Total (Audited)</b>
<b>Cost</b>			
<b>Beginning Balance</b>	<b>236,135</b>	<b>15,202,274</b>	<b>15,438,409</b>
<b>Additions</b>	<b>-</b>	<b>83,675</b>	<b>83,675</b>
<b>Disposals</b>	<b>-</b>		<b>-</b>
<b>Ending Balance</b>	<b>236,135</b>	<b>15,285,949</b>	<b>15,522,084</b>
<b>Accumulated depreciation and amortization</b>			
<b>Beginning Balance</b>	<b>236,135</b>	<b>4,957,990</b>	<b>5,194,125</b>
<b>Depreciation</b>	<b>-</b>	<b>2,995,570</b>	<b>2,995,570</b>
<b>Disposals</b>			<b>-</b>
<b>Ending Balance</b>	<b>236,135</b>	<b>7,953,560</b>	<b>8,189,695</b>
<b>Net book values</b>	<b>-</b>	<b>7,332,389</b>	<b>7,332,389</b>

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## 8 Assets Held for Sale

Assets held for sale represent the carrying amount, which is lower than the fair value less costs to sell, of land and condominium units included in the paging business of the Company. As discussed in Note 1, the Company's paging business discontinued its commercial operations in 2002.

A portion of land and the condominium units were disposed in 2005 through sale transaction. The remaining piece of land is expected to be disposed through a sale transaction in 2012.

Management continues to commit itself to pursue its plan to sell the remaining piece of land given the extension of the period to complete the sale. The fair value of the assets held for sale amounted to ₱3,012,000 and ₱3,027,000 as of December 31, 2011 and 2010, respectively.

<b>9. Accounts payable and accrued expenses</b>			
		<b>31-Mar-12</b>	<b>31-Dec-11</b>
		<b>(Unaudited)</b>	<b>(Audited)</b>
	Trade	<b>416,987</b>	821,027
	Accrued expenses	<b>801,340</b>	668,770
	Others	<b>230,150</b>	326,006
		<b>1,448,477</b>	1,815,803

There have been no guarantees received for trade and other payables. Trade and other payables are unsecured liabilities.

Other payables consist mainly of deferred output VAT, amounts due to Social Security System and Home Development Mutual Fund, among others.

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## 9 Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

In addition to those mentioned in Note 1, related party transactions in the ordinary course of business, which are made at terms equivalent to those that prevail in arm's length transactions, are as follows:

- a. Unsecured intercompany balances represent noninterest-bearing cash advances from GeBSI, a stockholder, presented as Advances from a stockholder, amounting to ₱19,310,284 and ₱19,310,284 as of March 31, 2012 and 2011, respectively, for working capital requirements.
- b. Compensation of key management personnel of the Group (see Notes 15 and 16).
- c. Participation by the Group in the Transnational Diversified Group of Companies Retirement Plan (the Group Plan; see Note 16).

## 10 Capital Stock

The BOD approved 42,557,170 (net of 26,113 exercised in 2005) warrants issued to the stockholders in 2003. The exercise price of the warrant is ₱1.15 per share. A warrant represents an entitlement to subscribe and be allotted one (1) common share. The warrants shall be the direct obligations of the Company to the registered owners of the warrants, subject to the terms and conditions of the warrant certificate. There were no warrants exercised in 2011 and 2010.

On September 11, 2008, the BOD approved the issuance of 11,500,000 stock rights to all stockholders of record as of January 8, 2009 at an offer price of ₱1.00 per share. Each shareholder shall be given one share of the Company for every 8 shares currently held by them. The proceeds will be utilized to fund the expansion and enhancement of the Company's delivery of its Internet Protocol-based internet products and services.

The issuance of the stock rights offer was approved by the Philippine SEC on December 23, 2008.

Effective January 23, 2009, 11,500,000 stock rights were exercised by the stockholders at ₱1.00 per share or for a total par value of ₱ 11,500,000 (see Note 10).

As discussed in Note 1 to the consolidated financial statements, on April 14, 2010, the PSE approved the application of the Company to list additional 46,570,025 common shares with a par value of ₱1.00 per share to cover the private placement by GeBSI at a subscription price at par.

As of March 31, 2012 and 2011, the movement in capital stock is as follows:

11			
Capital Stock			
		31-Mar-12	31-Dec-11
		<i>(Unaudited)</i>	<i>(Audited)</i>
Capital Stock- P1 par value (See Note 1)			
	Authorized- 300 million shares		
	Issued- 150,000,000 shares	<b>150,000,000</b>	150,000,000

Based on the Company's track record of registration of securities under the Securities Regulation Code of the Philippine SEC, the Company has 3,000,000 authorized shares at ₱1.00 par value or a total par value of ₱3,000,000 since its date of registration (see Note 1). As of March 31, 2012 and 2011, there were no movements in the Company's registered securities.

As of March 31, 2012, there are 301 shareholders who hold 150,000,000 shares.

12. Costs of Services			
		Quarter Ended March 31	
		2012	2011
		<i>(Unaudited)</i>	<i>(Audited)</i>
	Cost of leaseline subscriptions	<b>1,499,478</b>	1,275,768
	Depreciation (see Note 7)	<b>741,140</b>	737,640
	Employee related	<b>656,498</b>	834,545
		<b>2,897,116</b>	2,847,952

<b>13. General and Administrative Expenses</b>		<b>Quarter Ended March 31</b>	
		<b>2012</b>	<b>2011</b>
		<b>(Unaudited)</b>	<b>(Audited)</b>
	Employee Related (see Note 15)	205,526	329,707
	Management and Consultancy Fees	275,569	241,478
	Communications	30,902	47,501
	Taxes and licenses	111,443	117,825
	Professional Fees	100,000	107,500
	Travel	31,715	114,744
	Depreciation (see Note 7)	4,384	10,396
	Rental (see Note 17)	264,413	219,258
	Repairs and maintenance	8,164	11,530
	Miscellaneous - net	700,252	761,572
		<b>1,732,368</b>	<b>1,961,511</b>

Subscription dues increased in 2011 as a result of the increase in subscribed capital stock of the Company in 2010 (see Note 11).

Miscellaneous expenses include insurance and bond premium, bank charges and other expenses.

<b>14. Other Income</b>		<b>Quarter Ended March 31</b>	
		<b>2012</b>	<b>2011</b>
		<b>(Unaudited)</b>	<b>(Audited)</b>
	Interest income	<b>386,612</b>	345,903
	Miscellaneous (see Note 16)	-	-
		<b>386,612</b>	345,903

Miscellaneous income in 2010 and 2009 mainly represents income generated from utilities' refund, and is not a result of a related party transaction. This also includes retirement benefit income in 2009 amounting to ₱34,100 (see Note 16).

<b>15. Employee-related Expenses</b>		<b>Quarter Ended March 31</b>	
		<b>2011</b>	<b>2010</b>
		<b>(Unaudited)</b>	<b>(Audited)</b>
	Salaries and wages	<b>176,985</b>	261,190
	Employees' benefits	<b>28,541</b>	68,517
		<b>205,526</b>	329,707

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## 11 Retirement Benefit Plan

The Group participates in the Group Plan, which is managed by a Board of Trustees and is funded by contributions of each participating company. The fund assets of each participating company are determined on the basis of each company's contribution to the Group Plan. The annual contribution to be paid to the Group Plan is based on the unfunded actuarial liability computed individually for each participating company.

The benefits are based on a certain percentage of the final monthly basic salary for every year of credited service of the employees.

The following tables summarize the amounts recognized in the consolidated balance sheets, the components of net retirement benefit expense (income) recognized in the consolidated statements of comprehensive income and the funded status, based on the latest actuarial valuation as of December 31.

Components of net retirement benefit expense (income) recognized in the consolidated statements of comprehensive income are as follows:

	2011	2010	2009
Current service cost	<b>₱56,300</b>	₱33,000	₱2,900
Interest cost	<b>24,203</b>	13,090	2,300
Expected return on plan assets	<b>(37,116)</b>	(26,897)	(17,600)
Actuarial gains	<b>(10,336)</b>	(14,886)	(21,700)
Retirement benefit expense (income)	<b>₱33,051</b>	₱4,307	(₱34,100)
Actual return on plan assets	<b>₱11,792</b>	₱62,176	₱36,247

Retirement benefit expense is presented under "Cost of services" account in the 2011 and 2010 consolidated statement of comprehensive income (see Note 12). Retirement benefit income is presented under "Other income" account in the 2009 consolidated statement of comprehensive income (see Note 14).

The components of retirement benefit asset recognized in the consolidated balance sheets are as follows:

	2011	2010
Fair value of plan assets	<b>₱754,106</b>	₱742,314
Present value of defined benefit obligation	<b>(486,300)</b>	(253,700)
Funded status	<b>267,806</b>	488,614
Unrecognized actuarial gains	<b>(82,860)</b>	(270,617)
Retirement benefit asset	<b>₱184,946</b>	₱217,997

Changes in the present value of the defined benefit obligation are as follows:

	2011	2010
Balances at beginning of year	<b>₱253,700</b>	₱121,200
Current service cost	<b>56,300</b>	33,000
Interest cost	<b>24,203</b>	13,090
Net actuarial losses (gains) due to:		
Change in actuarial assumptions	<b>204,600</b>	103,500

Experience adjustments	<b>(52,503)</b>	(17,090)
Balances at end of year	<b>₱486,300</b>	₱253,700

Changes in the fair value of plan assets are as follows:

	<b>2011</b>	2010
Balances at beginning of year	<b>₱742,314</b>	₱537,934
Expected return on plan assets	<b>37,116</b>	26,897
Contributions	–	142,204
Actuarial gains (loss)	<b>(25,324)</b>	35,279
Balances at end of year	<b>₱754,106</b>	₱742,314

The Group expects to contribute ₱154,194 to the Group Plan in 2012.

The major categories of the Group Plan's plan assets as a percentage of the fair value of the total plan assets are as follows:

	<b>2011</b>	2010
Cash and cash equivalents	<b>29%</b>	27%
FVPL investments	<b>14%</b>	12%
Investments in shares of stock	<b>3%</b>	3%
Others	<b>54%</b>	58%

Principal actuarial assumptions used to determine retirement benefits in 2011 and 2010 are as follows:

	<b>2011</b>	2010
Discount rate	<b>6.98%</b>	9.54%
Investment yield	<b>5.00%</b>	5.00%
Retirement date	<b>Age 60 and 10 years of service</b>	Age 60 and 10 years of service
Wages and salary increases		
Rank and file and non-managers	<b>5.00%</b>	5.00%
Managers and up	<b>5.00%</b>	5.00%
Turnover rate (voluntary separation)	<b>Ranging from 10% at Age 20 and decreasing to 0% after age 45</b>	Ranging from 10% at Age 20 and decreasing to 0% after age 45

The overall expected rate of return on plan assets is determined based on the market prices prevailing on that date, applicable to the period over which the obligation is to be settled.

Amounts for the current and previous four years are as follows:

	2011	2010	2009	2008	2007
Fair value of plan assets	<b>₱754,106</b>	₱742,314	₱537,934	₱352,387	₱418,000
Defined benefit obligation	<b>(486,300)</b>	253,700	121,200	8,137	357,100
Funded status	<b>267,806</b>	488,614	416,734	344,250	60,900
Experience adjustments on plan liabilities	<b>(52,503)</b>	(17,090)	(637)	(123,800)	97,900

## 12 Operating Leases

The Group subleases its warehouse space from Diversified Holdings, Inc. The sublease agreement is renewable on a year-to-year basis. Rent charged to operations for the year ended December 31, 2009 amounted to ₱54,153. The Group has not renewed its contract in 2011 and 2010.

## 13 Income Taxes

In 2011, 2010 and 2009, the provision for current income tax represents the Company's MCIT and e-Serve's regular corporate income tax.

As of December 31, 2011 and 2010, e-Serve recognized deferred income tax liability on retirement benefit asset amounting to ₱55,484 and ₱65,399, respectively. As of December 31, 2011 and 2010, the Group has the following deductible temporary differences, excess MCIT and unused NOLCO for which no deferred income tax assets were recognized since management believes that it is not probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized in the future:

	2011	2010
Allowance for impairment losses	<b>₱3,520,453</b>	₱3,520,453
NOLCO	<b>2,022,638</b>	455,780
MCIT	<b>112,846</b>	103,452
	<b>₱5,655,937</b>	₱4,079,685

As of December 31, 2011, the Group has NOLCO and MCIT that can be claimed against future taxable income and income tax liabilities, respectively, as follows:

Year incurred	Available up to	NOLCO	MCIT
2011	2014	₱2,014,728	₱30,177
2010	2013	7,910	41,806
2009	2012	–	40,863
		<b>₱2,022,638</b>	<b>₱112,846</b>

The following are the movements in NOLCO and MCIT:

NOLCO	2011	2010
Balances at beginning of year	<b>₱455,780</b>	₱23,740,878
Addition	<b>2,014,728</b>	7,910
Expirations	<b>(447,870)</b>	(23,293,008)
Balances at end of year	<b>₱2,022,638</b>	₱455,780

MCIT	2011	2010
Balances at beginning of year	<b>₱103,452</b>	₱61,646
Additions	<b>30,177</b>	41,806
Expiration	<b>(20,783)</b>	–
Balances at end of year	<b>₱112,846</b>	₱103,452

The reconciliation of income before income tax computed at the statutory tax rate to provision for income tax is as follows:

	2011	2010	2009
Income tax at statutory income tax rate at 30%	<b>₱1,263,975</b>	₱1,310,549	₱1,040,737
Additions to (reductions in) income taxes resulting from:			
Change in unrecognized deferred income taxes	<b>634,595</b>	44,179	(108,345)
Nondeductible expenses	<b>59,100</b>	7,656	240,255
Equity in net earnings of an associate	<b>(1,153,541)</b>	(558,600)	(732,626)
Interest income subjected to final tax	<b>(434,080)</b>	(296,735)	(41,656)
	<b>₱370,049</b>	₱507,049	₱398,365

#### 14 Earnings Per Share

The following reflects the consolidated net income and share data used in the basic and diluted earnings per share computations:

Basic earnings per share:

	2011	2010	2009
Net income	<b>₱3,843,200</b>	₱3,861,447	₱3,070,757
Divided by weighted average number of outstanding shares	<b>150,000,000</b>	136,417,076	102,471,642
Basic earnings per share	<b>₱0.03</b>	₱0.03	₱0.03



Diluted earnings per share:

	2011	2010	2009
Net income	<b>₱3,843,200</b>	₱3,861,447	₱3,070,757
Divided by:			
Weighted average number of ordinary shares for basic earnings per share	<b>150,000,000</b>	136,417,076	102,471,642
Effect of dilution:			
Exercisable warrants (see Note 11)	<b>42,557,170</b>	42,557,170	42,557,170
	<b>192,557,170</b>	178,974,246	145,028,812
Diluted earnings per share	<b>₱0.02</b>	₱0.02	₱0.02

## 15 Segment Information

PFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker.

For management purposes, the Group's operating segments are determined to be business segments as the risks and rates of return are affected predominantly by differences in the services rendered. The operating businesses are organized and managed separately according to the nature of the services provided, with each segment representing a strategic business unit that serves different markets.

The information technology services segment is engaged to operate as Internet Services Provider in the Philippines.

The contact center outsourcing business segment is engaged in contact center operations, software development, back-office processing and system integration.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment revenues and cost of services are measured in accordance with PFRS. Segment performance is evaluated based on operating income or loss and is measured consistently with income before income tax as reported in the consolidated financial statements.

### Business Segments

The following tables present revenue and profit and certain asset and liability information regarding the Group's business segments for the years ended December 31, 2011, 2010 and 2009 (in thousands):

#### 2011

	Information Technology Services	Contact Center Outsourcing Business	Total Segments	Adjustments and eliminations	Consolidated
Service income	<b>₱18,609</b>	<b>₱2,154,490</b>	<b>₱2,173,099</b>	<b>(₱2,154,490)</b>	<b>₱18,609</b>
Costs of services	<b>10,556</b>	<b>1,973,962</b>	<b>1,984,518</b>	<b>(1,973,962)</b>	<b>10,556</b>
Gross profit	<b>8,053</b>	<b>180,528</b>	<b>188,581</b>	<b>(180,528)</b>	<b>8,053</b>
General and administrative expenses	<b>(9,144)</b>	<b>(82,940)</b>	<b>(92,084)</b>	<b>82,940</b>	<b>(9,144)</b>
Equity in net earnings of an associate	<b>3,845</b>	<b>–</b>	<b>3,845</b>	<b>–</b>	<b>3,845</b>
Dividend income	<b>1,143</b>	<b>–</b>	<b>1,143</b>	<b>(1,143)</b>	<b>–</b>
Other income - net	<b>1,459</b>	<b>6,546</b>	<b>8,005</b>	<b>(6,546)</b>	<b>1,459</b>

<b>Income before income tax</b>	<b>5,356</b>	<b>104,134</b>	<b>109,490</b>	<b>(105,277)</b>	<b>4,213</b>
<b>Provision for (benefit from) income taxes</b>					
<b>Current</b>	<b>380</b>	<b>2,926</b>	<b>3,306</b>	<b>(2,926)</b>	<b>380</b>
<b>Deferred</b>	<b>(10)</b>	<b>(108)</b>	<b>(118)</b>	<b>108</b>	<b>(10)</b>
	<b>370</b>	<b>2,818</b>	<b>3,188</b>	<b>(2,818)</b>	<b>370</b>
<b>Net income (loss)</b>	<b>₱4,986</b>	<b>₱101,316</b>	<b>₱106,302</b>	<b>(₱102,459)</b>	<b>₱3,843</b>
<b>Operating assets</b>	<b>₱74,866</b>	<b>₱931,483</b>	<b>₱1,006,104</b>	<b>(₱931,728)</b>	<b>₱74,621</b>
<b>Operating liabilities</b>	<b>₱2,061</b>	<b>₱294,051</b>	<b>₱295,867</b>	<b>(₱294,296)</b>	<b>₱1,816</b>
<b>Investment in an associate</b>	<b>₱28,378</b>	<b>₱-</b>	<b>₱28,378</b>	<b>₱-</b>	<b>₱28,378</b>
<b>Capital expenditures</b>	<b>₱84</b>	<b>₱142,913</b>	<b>₱142,997</b>	<b>(₱142,913)</b>	<b>₱84</b>

2010

	Information Technology Services	Contact Center Outsourcing Business	Total Segments	Adjustments and eliminations	Consolidated
Service income	₱18,644	₱1,887,841	₱1,906,485	(₱1,887,841)	₱18,644
Costs of services	9,768	1,725,355	1,735,123	(1,725,355)	9,768
Gross profit	8,876	162,486	171,362	(162,486)	8,876
General and administrative expenses	(7,692)	(89,687)	(97,379)	89,687	(7,692)
Equity in net earnings of an associate	1,862	-	1,862	-	1,862
Dividend income	3,967	-	3,967	(3,967)	-
Other income (expenses) - net	1,323	(20,980)	(19,657)	20,980	1,323
Income before income tax	8,336	51,819	60,155	(55,786)	4,369
Provision for income taxes					
Current	466	2,653	3,119	(2,653)	466
Deferred	41	166	207	(166)	41
	507	2,819	3,326	(2,819)	507
<b>Net income</b>	<b>₱7,829</b>	<b>₱49,000</b>	<b>₱56,829</b>	<b>(₱52,967)</b>	<b>₱3,862</b>
<b>Operating assets</b>	<b>₱76,844</b>	<b>₱802,775</b>	<b>₱879,619</b>	<b>(₱803,275)</b>	<b>₱76,344</b>
<b>Operating liabilities</b>	<b>₱4,603</b>	<b>₱295,798</b>	<b>₱300,401</b>	<b>(₱296,298)</b>	<b>₱4,103</b>
<b>Investment in an associate</b>	<b>₱27,587</b>	<b>₱-</b>	<b>₱27,587</b>	<b>₱-</b>	<b>₱27,587</b>
<b>Capital expenditures</b>	<b>₱411</b>	<b>₱79,907</b>	<b>₱80,318</b>	<b>(₱79,907)</b>	<b>₱411</b>

	Information Technology Services	Contact Center Outsourcing Business	Total Segments	Adjustments and eliminations	Consolidated
Service income	₱16,294	₱1,979,048	₱1,995,342	(₱1,979,048)	₱16,294
Costs of services	8,348	1,767,195	1,775,543	(1,767,195)	8,348
Gross profit	7,946	211,853	219,799	(211,853)	7,946
General and administrative expenses	(7,589)	(114,489)	(122,078)	114,489	(7,589)
Equity in net earnings of an associate	2,442	–	2,442	–	2,442
Dividend income	2,053	–	2,053	(2,053)	–
Other income (expenses) - net	670	(32,861)	(32,191)	32,861	670
Income before income tax	5,522	64,503	70,025	(66,556)	3,469
Provision for income taxes					
Current	397	–	397	–	397
Deferred	1	239	240	(239)	1
	398	239	637	(239)	398
Net income	₱5,124	₱64,264	₱69,388	(₱66,317)	₱3,071
Operating assets	₱30,500	₱820,067	₱847,348	(₱823,286)	₱27,281
Operating liabilities	₱6,600	₱357,698	₱361,079	(₱360,917)	₱3,381
Investment in an associate	₱30,221	₱–	₱30,221	₱–	₱30,221
Capital expenditures	₱14,083	₱48,800	₱62,883	(₱48,800)	₱14,083

Capital expenditures consist of additions to property and equipment.

## 16 Financial Instruments and Capital Risk Management

### Financial Risk Management Objectives and Policies

The Group's financial instruments comprised of cash and cash equivalents, trade and other receivables, trade and other payables and advances from a stockholder.

The BOD has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk management policies are established to identify and manage the Group's exposure to financial risks, to set appropriate transaction limits and controls, and to monitor and assess risks and compliance to internal control policies. Risk management policies and structure are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group has exposure to liquidity risk and credit risk from the use of its financial instruments. The BOD reviews and approves the policies for managing each of these risks.

### *Liquidity Risk*

Liquidity risk is the risk that the Group will not be able to meet their financial obligations as they fall due. The Group's objectives to managing liquidity risk is to ensure, as far as possible, that they will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking adverse effect to the Group's credit standing.

The Group manages liquidity risk by maintaining a balance between continuity of funding and flexibility. As part of its liquidity risk management, the Group regularly evaluates its projected and actual cash flows.

The carrying values of cash and cash equivalents and trade and other receivables as of December 31, 2011 and 2010 are readily available for liquidity purposes. The outstanding balances of trade and other payables and advances from a stockholder are due and demandable as of December 31, 2011 and 2010.

### *Credit Risk*

Credit risk is the risk of financial loss to the Group would incur if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises primarily from the Group's trade and other receivables.

The Group trades only with recognized, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, trade and other receivables balances are monitored on an ongoing basis with the result that the Group's exposure to bad debt is not significant. The Group's maximum exposure to credit risk is the carrying amount of its financial assets. As of December 31, 2011 and 2010, the Group has no significant concentration of credit risk.

The Group grants advances to its related parties after the BOD reassessed the Group's strategies for managing credits and view that they remain appropriate for the Group's circumstances. In addition, these advances are monitored on an ongoing basis with the result that the Group's exposure to account discrepancies is not significant.

Cash equivalents are money market placements made with reputable banks duly approved by BOD. All unimpaired receivables are collectible and in good standing. Management believes that all financial assets are of good credit quality.

### Fair Values of Financial Instruments

The carrying amounts of cash and cash equivalents, trade and other receivables, trade and other payables and advances from a stockholder approximate their fair values due to the short-term maturities of these financial instruments.

### Capital Management

The primary objective of the Group's capital management is to ensure that the Group maintains strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes as of December 31, 2011 and 2010. The Group considers the following as its core capital:

	2011	2010
Capital stock	<b>₱150,000,000</b>	₱150,000,000
Deficit	<b>(62,446,457)</b>	(62,289,657)
	<b>₱87,553,543</b>	₱83,710,343

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### **17 Note to Consolidated Statements of Cash Flows**

#### 2010

Noncash investing and operating activities pertain to additions to property and equipment amounting to ₱268,089 which was still unpaid as of December 31, 2010 (see Note 7).

#### 2009

Noncash financing activity pertains to the exercise of 11,500,000 stock rights by the stockholders at ₱1 per share or for a total par value of ₱11,500,000 which was applied against advances from a stockholder (see Notes 10 and 11).